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C O N F I D E N T I A L SECTION 01 OF 03 HARARE 000284

SIPDIS

AF/S FOR B. WALCH
STATE PASS TO TREASURY/OFAC
DRL FOR N. WILETT
ADDIS ABABA FOR USAU
ADDIS ABABA FOR ACSS
STATE PASS TO USAID FOR J. HARMON AND L. DOBBINS
STATE PASS TO NSC FOR SENIOR AFRICA DIRECTOR MICHELLE GAVIN

E.O. 12958: DECL: 04/03/2019
TAGS: [PGOV](#) [PREL](#) [ASEC](#) [PHUM](#) [EFIN](#) [ZI](#)
SUBJECT: DELISTING ZIMBABWEAN BANKS WORTH CONSIDERING

REF: HARARE 266

Classified By: Ambassador James D. McGee for reason 1.4 (b) and (d)

SUMMARY

11. (C) Post recommends consideration of removing Zimbabwean banks the Agricultural Development Bank of Zimbabwe ("Agribank") and ZB Financial Holdings and its subsidiaries (collectively "ZB Bank") as Department of Treasury Office of Foreign Assets Control (OFAC) Specially Designated Nationals (SDNs).

12. (SBU) In meetings with senior management of the two OFAC-listed Zimbabwean banks, Agribank and ZB Bank, officials candidly discussed the degree to which OFAC listings have impaired their banks. Able only with difficulty to engage in dollar-denominated transactions in a dollarized economy, Agribank and ZB Bank are hemorrhaging customers, leading to cuts in staffing and a reduction in operations.

13. (SBU) Though highly effectual, OFAC listings are also having unintended consequences as they limit Agribank's and ZB Bank's large rural customer base from accessing U.S. dollars and degrade the overall reputation of the Zimbabwean banking sector. Delisting these banks would help free the sorely-needed lines of credit from the international banking community that are necessary to rebuild Zimbabwe's economy. While Agribank and ZB Bank may have been involved in past abuses via patronage schemes funded by the Reserve Bank of Zimbabwe (RBZ), the present reduced authority of the RBZ mitigates this risk. Also, the transfer of control of the Ministry of Finance and Ministry of Labor to the MDC will increase oversight of Agribank and ZB Bank through their large shareholdings and their board presence. END SUMMARY.

OFAC-Listed Zimbabwean Banks Struggling

¶4. (SBU) ZB Financial Holdings and its subsidiaries ZB Bank and ZB Holdings ("collectively ZB Bank"), and the Agricultural Development Bank of Zimbabwe ("Agribank"), were listed on July 25, 2008 by OFAC as SDNs, and consequently are struggling to maintain banking operations and retain customers. Prior to widespread dollarization of the Zimbabwean economy, ZB Bank and Agribank sustained their businesses using primarily the Zimbabwean dollar. However, they are now unable to satisfy clients' U.S. dollar-based needs and are persistently losing customers to the competition.

¶5. (C) Agribank CEO Sam Malaba told poloff on March 19 that limited access to U.S. dollars had forced the bank to sell properties for liquidity, put a portion of staff on unpaid leave, and would lead to closure of some bank branches. Agribank has also been unable to make payments to international providers for computer services to facilitate SWIFT bank-messaging systems or even for basic Microsoft software products.

¶6. (C) ZB Bank faces these same challenges, and CEO Elisha Mushayakarara told us his bank is also being forced to scale back operations to reduce costs. ZB Bank currently has US\$6 million frozen in offshore accounts.

¶7. (C) At our request, both ZB Bank and Agribank provided us with lists of customers who had left them for other banks.

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We spoke with tobacco exporter Greg McDonald, a longtime former ZB Bank client and Embassy contact, who confirmed that he had switched his business to a South African bank because ZB Bank was unable to process U.S. dollar payments to his tobacco growers. Tony Jordan, CEO of Burco Zimbabwe and executive committee member of the American Business Association of Zimbabwe (ABAZ), also ceased to bank with ZB Bank after OFAC froze a payment from Hewlett Packard that had been directed through ZB Bank.

The Broader Impact of These Listings

¶8. (SBU) Agribank and ZB Bank both have extensive retail banking operations throughout the country. Agribank has 53 branches and ranks third in Zimbabwe in the number of government employees among its account holders, while ZB Bank has 51 branches. In many small and medium sized towns, they are the only banks, which make rural populations particularly reliant on them. Civil servants, such as school teachers and health workers, who receive their US\$100 allowances deposited directly into their bank accounts, are facing delays in withdrawing these funds because Agribank and ZB Bank are struggling to obtain U.S. dollar cash (reftel).

¶9. (SBU) There are also unintended reputational and lending costs applied to the entire banking sector through these listings. Paul Brien, the chief investment officer at local CBZ Bank, told us that the listings had tarnished the image of all Zimbabwean banks and some clients had steered their business to non-Zimbabwean banks out of concern that other local banks might be targeted. He added that, though only partially a consequence of the listings, higher borrowing rates and limited credit availability had been an issue for all Zimbabwean banks as international lenders apply higher risk ratings to Zimbabwean banks.

Agribank and ZB's Government Links

¶10. (SBU) Both Agribank and ZB Financial Holdings are

majority government owned. Agribank is 50 percent owned by the Ministry of Finance and 50 percent owned by the Ministry of Agriculture. ZB Financial Holdings is 42 percent owned by the National Social Security Authority (NSSA), 32 percent publicly-owned through its Zimbabwe Stock Exchange listing, and 26 percent owned by the Ministry of Finance. Through their ownership stakes, government ministries appoint directors to the institutions' boards of directors. Mushayakarara and Malaba believed that their government ownership made them the target of OFAC's financial measures, and they were attempting to diversify their ownership through either a private placement or a public sale; however, they knew their OFAC-listed status would depress their valuation. Both CEOs stressed that their management and boards were composed of banking and industry professionals. (COMMENT: We believe this assertion to be generally accurate. Worthy of mention is that the chairman of ZB Bank is Richard Hove, a ZANU-PF politburo member and himself an SDN. When asked about Hove's association with ZB Bank, Mushayakarara said that the board had long ago requested that Hove not discuss politics or incorporate his political dealings into bank affairs. Mushayakarara alleged he had maintained that posture. END COMMENT.)

More Answerable Now to MDC-Led Ministries

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¶11. (SBU) Under the new government of national unity, control of the Ministry of Finance is exercised by the MDC's Tendai Biti, who has quickly taken steps to hamstring RBZ Governor Gideon Gono. The Ministry of Finance has one representative on ZB Bank's board; the NSSA, which falls under the Ministry of Labor -- also now under MDC leadership -- has two representatives on the board. With these power shifts, the two MDC ministries will have majority shareholder control of ZB Bank, and the Finance Ministry will have 50 percent control of Agribank.

Cheap Money No Longer Available for Abuse

¶12. (SBU) Until a few years ago, Agribank lent solely to the agricultural sector. As such, along with all other Zimbabwean banks and several large commercial British and South African banks, it was a significant disburser of highly subsidized loans to farmers under the RBZ initiated program called the Agricultural Sector Productivity Enhancement Facility (ASPEF). The program ostensibly was meant to invigorate the agricultural sector, but it became a vehicle for patronage by the RBZ.

¶13. (C) The program was manipulated and cheap money was distributed not only to productive farmers, but also to numerous well-connected members of ZANU-PF. Agribank's agricultural role may have made it particularly susceptible to this abuse. Discussions with Trevor Gifford, the President of the Commercial Farmer's Union (CFU), supported that Agribank had been used to distribute cheap funds to political elites who had seized farms from commercial owners. (NOTE: The CFU represents commercial farmers who lost farms or are under threat of losing farms due to the GOZ's land reform program. END NOTE.)

¶14. (SBU) The collapse of the Zimbabwe dollar dried up the ASPEF program. Additionally, fiscal policy under the inclusive government is based on a cash budget, i.e. expenditures may not exceed revenue, and the monetary policy is hard-currency based, precluding off-budget spending.

COMMENT

¶15. (C) Agribank and ZB Bank are desperate to get delisted and have provided us with customer lists and references to legitimize their case. They would also likely take heed of any USG restructuring recommendations that would improve their chances of delisting. They have made repeated assurances that they have not been politicized and follow sound lending practices. As evidence of this, they argue that they continue to support a large loan book to the remaining white-owned commercial farms. A first take appears to confirm thi.

¶16. (C) Delisting these banks would provide a financial boost to Agribank and ZB Bank, but more importantly send a signal to the international financial community to extend sorely-needed credit to Zimbabwe. Additionally, it would enable the banks to more easily access cash and in turn enable civil servants in rural areas to access Ministry of Finance allowances. END COMMENT.

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